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Directed Social Economics: China's Complicated Growth Story

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1. Introduction

China's growth story though seemingly complicated, is not quite so. The Communist Party of China is certainly a highly complex organisation. The party itself is the government, the party is a 'business partner' too with the internal and foreign corporations and the party is also the 'face of China' to the outside world. If we can rise above all this data and try to connect various variables that impact China, we might perhaps have more insight into this enigmatic country, perhaps arrive at a few realistic conclusions or even predict its present and future designs.

The Chinese economy today is an absurd blend of communism and capitalism. Initially, the Communist Party of China (CPC) aimed at having a society where a combination of 'capitalism' was implemented at the country-level and 'communism' reserved for its people. By way of adopting of a capitalist route, China invited foreign companies to do business in China, but concurrently the Chinese society was made to function on a communist framework. China knew that the trick lay in ensuring that its people get reasonable jobs, remuneration, facilities and a decent family-life. However, all this was under complete control, planning and supervision of the government. In its initial stage of this economic growth strategy, China correctly envisaged that its people would not truly be bothered about political, intellectual and social freedom if they were accorded a reasonable livelihood. China thus shifted its concentration from agriculture to manufacturing and subsequently started expanding into the services sector. In this entire process of transformation, China neglected the agriculture sector thoroughly, despite the fact that agricultural land was in effect under the direct control of the government.

The Chinese government promoted 'crony capitalism' among members of the CPC, bureaucrats and some well-connected Chinese business families. China also promoted 'pseudo banking' mostly used for 'unaccounted businesses'. As a result of the widespread crony capitalism, there evolved a corrupt network which percolated through the fabric of the Chinese people at large. It was the onset of a brewing distrust between the people and the

government of China. The Chinese government neglected, overlooked and even tried suppressing the need of social, intellectual and political freedom of its common folk. This ‘loss of freedom’ had to be compensated in some other way, which the Chinese government did by offering higher wages. Costlier labour added to a corrupter system and contributed in making China more and more ‘unattractive’. The pollution and corruption started infesting the Chinese legislative system as well. Foreign corporations operating in China with the result are very concerned today and hold quite a myopic view of their future in China.

The social framework of China is crumbling and its society is fast decaying. This decay may be described as follows:

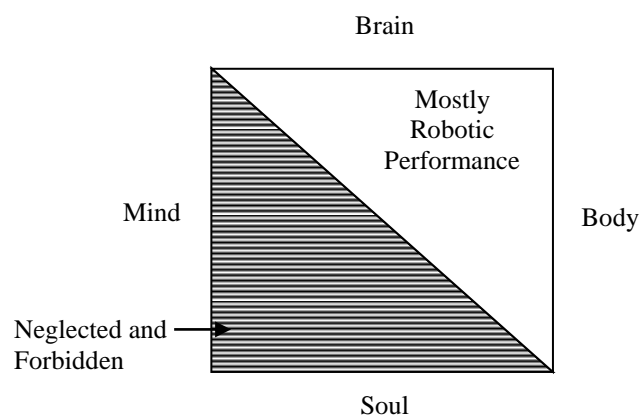


Figure 1

People of China brought in trouble upon themselves by pliable, meekly accepting their government’s laid stipulations. They, the people, almost signed their own condemnation by accepting that their freedom of brain be compromised, they agreed to let their social enlightenment be tossed away, they let their innate entrepreneurial talent be dismissed for as long as their small material world as promised by the state remained intact. In a nutshell they bartered away a lot more, a lot worthier stuff, in exchange of small comforts, only to realise their blunder in hindsight. This is the scenario of today where the common man in China realises that he has sold his soul and that’s why, by and by, the comfort level of the Chinese populace with regard its government is rapidly reducing.

What was once China’s strength is gradually becoming its weakness. Indeed, this process of deterioration appears slow presently, but it could pick up momentum by 2020-21 and the Chinese economy could become a ‘centre of global turbulence’ by the year 2025. This is not

to be interpreted as my prophecy; it is only a sensitive socio-economic prediction. A table of this 'negative transformation' is presented as follows:

Table 1			
Sr. No.	Current Strength	Transformable weakness in the future	Period for transformation
1	Export based manufacturing	Excessive manufacturing capacities	4 to 5 years
2	Productive labour	Costly labour	2 to 3 years
3	Socio - political stability	Social unrest and political instability	6 to 7 years
4	Growing urbanisation	Fast deteriorating natural environment	4 to 5 years
5	Economic growth in all the sectors	Rapidly growing gap between north and south China	6 to 7 years
6	Directed and collective farming	Farmers rebel against governmental control and corruption	6 to 7 years
7	Involvement of minority communities in economic progress	Muslims and Tibetan Buddhists are already rebelling against Chinese suppression	5 to 6 years
8	Consumption based model of economic growth	Excessive consumerism and declining savings would ultimately lead to the dilemma of capital formation	6 to 7 years
9	Reasonably strong currency	Currency manipulation could damage the external investment critically	4 to 5 years
10	Strong presence of government owned companies	Corruption and lack of entrepreneurship would make them a liability	6 to 7 years
11	Business presence in African and Asian countries is substantial	Political ambition and geographical encroachment would erode the credibility	6 to 7 years
12	Credit disbursement is quick and adequate	Informal and parallel banking would cause monetary imbalance and crony capitalism	5 to 6 years

2. China – Centre of Global Turbulence

If and when China becomes a ‘centre of global turbulence’, the very unfortunate global scenario could be somewhat like this:

China with all its political and economic ambitions may trigger off a possibility of a ‘regional war’ with Japan, South Korea, Myanmar and Vietnam. This war then wouldn’t remain regional. It could quite possibly get escalated into a third world war. There could be a possibility of a regional war impending by the year 2025 and if so, certainly it would involve other global power players like USA, France, Britain, Germany, and Russia. It could even reach Islamic countries like Iran, Iraq, Saudi Arabia, Pakistan, Egypt and Portugal. In such a scenario the Islamic countries would possibly be divided between the two groups -- one led by the US and the other by China. And broadly speaking, as most wars go, it could turn out to be a devastating war between the democratic countries and those others under non-democratic regimen. Almost 95% of the Islamic countries are non-democratic, as these are governed by Islamic doctrines. Fundamentally, Islam as a religion does not promote true application of democracy. A China-centric division of the globe could be as follows:

China Group – China, North Korea, Russia, Iran, Iraq, Nigeria, Egypt

USA Group – USA, Japan, South Korea, Britain, France, Italy, Germany, Israel, Saudi Arabia, Portugal, Taiwan, Myanmar

Though India would ideally like to maintain its friendship with Russia, it could well be compelled to join the US-led group. This compulsion would obviously be emanating from a visible Chinese political stance, Pakistan’s atomic arrogance and association between the two countries. However, India’s joining the USA-led group could ultimately create an energy crisis for itself. America’s shale gas may perhaps not be able to completely solve India’s energy deficit.

China contributes approximately 25% of the total ‘manufacturing output’ of the world, as of today. However, with its diminishing rate of growth and the prospect of other emerging economies doing better, China’s contribution is expected to drop to about 15% by the year 2023. An economically trapped China, I envisage, would then initiate some regional war and reasons can be plenty like a border dispute, or a matter of oceanic control, or say an ownership issue on Taiwan or some other territorial disputes with its neighbours.

Who knows there might spring up some other avenues to warmonger. Perhaps there could be an ‘economic war’ with ‘social grouping’ or ‘social isolation’. China, in order to save its economy, especially its social fabric, may urge some of the oil producing countries with military or autocratic governance to connect and unify with certain countries governed by the Muslim faith. All these countries could arrange to unite against the truly liberal, scientific oriented democratic countries. Then those neither-here-nor-there-countries such as Indonesia and Malaysia could possibly float along the side-lines of this group. Although admittedly they are democratic countries, Islamic radicalisation is laying its foundation there too.

As the picture presents itself certain developed democratic countries, including Japan and South Korea are at the bottom of their economic performance and social consolidation. A lot of European countries depend substantially on oil-exporting countries including Russia. Besides, America by itself would not be in a position to fulfil the European demand for oil. The requirement for oil in India too is enormous. To satisfy its estimated rate of growth, India would need double its present oil consumption by the year 2020. How are all those democracies supposed to survive without adequate energy? There is yet no clear indication about any alternate energy sources on the horizon, with the exception of atomic energy, solar energy and shale gas. These energies too are presently not so economically viable and not available in quantum.

The other global challenge in the days to come should be that of ‘water management’ and ‘management of natural environment’. China’s score on both these fronts is far from impressive. As a matter of fact, these are going to be the two most critical issues China could likely be facing this next decade. China’s cultivable land would not be enough for its population estimated at 1.7 billion by the year 2020. China will have to spend almost 60% of its resources on energy, food and water. China’s political ambition or say encroachment policy will be dictated by these three most critical, basic requirements. Therefore, China’s first step would be to attempt at ensuring a free and adequate supply of those necessities – energy, food and water for the coming fifty years. China’s latest contract with Russia is a major step towards this arrangement. Its presence in Africa is expected not only to create employment for its people, but should also open up suitable avenues for the supply of food-grain, coal and other minerals.



Figure 2

The above map shows how China is surrounded by different types and sizes of countries. These countries certainly differ on various parameters. They possess varied aspirations and use different perceptions on the global front, while dealing among themselves or when transacting with China. Although China may have initiated in building up a strong Asian Bank with the support of some of its Asian neighbours, there is growing displeasure and distrust about its intentions. China claims that its global aspirations are openly known, by the very fact that it has investments in the western countries and substantial exports to the USA. China in the immediate future will attempt to further consolidate its economic position in the global market. What is yet unclear, is what is there on China's political agenda; what is its political ambition and thus what 'political economics' will it endorse?

3. The Downward Transformation of China

China's 'social economics' is rapidly getting replaced by 'political economics'. This downward transformation can be explained as follows:

- (1) **A shift from 'People-centric' to 'Party-centric'** – Around early 80s, China started its process of economic transformation with social aims and objectives. Its people

were happy with whatever economic solutions were provided by their government. The initial rate of economic growth was not so impressive, yet the Chinese people were assured their overall socio-economic growth. Gradually the members of the Communist Party of China realised that they were the main drivers of this transformation. Those people thus turned arrogant and self-centric. It was sometime in the late 90s, that the 'communist type of corruption' got rooted in the overall government machinery of China. In other words, any ordinary member of the Communist Party was better known as 'an agent' everywhere, and he was an easy candidate to be bribed for favours. Of course, this could be true of many democratic countries as well, like in the case of India where a member of the ruling party can lead you straight to the corridor of power. But unlike what happens in a communist country, people in India can always aspire to protest and collectively fight with adequate exposure and even assistance from the media. China today is absolutely dominated by the members of the Communist Party. They are these members who exploit the farmers, grab away their land, indulge in all types of frauds and are yet shielded by their 'godfathers'. If you want to do business in China or run a social organisation over there, you must transact with the 'party members' and keep them constantly happy. Such cost for manipulating and gratifying the greed for money of the government office bearers is then recovered by way of 'inflated' costing and pricing of products and services.

- (2) **From 'inclusive economics' to 'exclusive economics'** – Initially China could boast of its inclusive policies of growth, taking serious care of the minorities, farmers and other villagers. Today the Chinese economics is more exclusive. It caters to the vocal urban class with 'Han' cultural background alone. Thus, the Tibetans, the Muslims and the Christians get a raw deal. The condition of the farmers and the unemployed villagers is most pathetic. Besides the government policy of 'contract farming' is destroying the basic ownership rights of the farmers. Also, excessive urbanisation is a major reason that explains the exploitation of farmers. Here the principle of the so-called communism gets defeated. Workers of the party and bureaucrats come together and harass the farmers. The land adjacent to cities is often rampantly grabbed away from the farmers and sold to the industry. Foreign multinational corporations generally benefit from such open exploitation. Ironically it adds to the 'ease of conducting businesses'. (Incidentally, the present law framed by the Indian government to take away the farmers' land too is exploitative. It benefits the

industrialists at the cost of naïve farmers. This unfortunately proves that in a democracy where all are supposed to be equal, some however are more than equal! This is true even of USA, where the government routinely bails out the corrupt or inefficient businesses and banks, by using public money.) The Chinese villagers do not possess suitable skills to pick up urban jobs; nor are they capable of raising funds to improve their agricultural output. The Muslims and the Tibetans cannot get jobs in the manufacturing or service sectors. Thus, they are obliged to depend on farming alone or else settle off for low skill jobs that can barely earn a decent livelihood.

(3) **Social Infrastructure vs. Political Infrastructure** – Almost 25% of China's infrastructure is unproductive. This is because quite a few infrastructural projects have been generated and executed for the sole monetary benefit of the party workers and their employment. China of late is using typically the same philosophy in poor African and Asian countries in order to gain political mileage. Of course, many world-powers like the US and Russia have been using a similar theory. But China's operations are far more excessive and they hurt the poor people of China. The environmental damage in Chinese cities has reached alarming levels. Villages do not enjoy the same infrastructure made available to most of the urban areas. China has failed to provide suitable facilities in Tibet for instance. Its water management will not be sufficient for the growing population at the turn of 2020. In other words, there is a serious imbalance between 'suitable or social infrastructure' and 'infrastructure used for political purpose.' Such unproductive investment has brought down China's rate of growth to 7% from the rate of 9-10% that it enjoyed until recently.

(4) **Social Investment vs. Political Investment** – Initially China's investment in American and European securities was appreciated by the global gurus of economics. It served a reasonable purpose of political dominance. China could also use this exercise to protect its currency artificially. It was when China started manipulating USA and Germany with its western investments there, that these countries awoke and asked China to do a currency valuation. The collapse of 2007 caused a horrific jolt to China's foreign investment policy. Europe's economic failure and America's overall sickness prompted them to question the Chinese dominance, it attained by way of its investments there. China's economic model was substantially based on its exports to the Western countries. The fall in exports was tough for Chinese industry, government, banks and the Communist Party of China. If the valuations of these investments do not improve in the next couple of years, China will be compelled to

revalue its currency, postpone internal development projects and depend more on exploiting the poorer African and Asian countries.

(5) **From economic prosperity to social unrest** – China's communist model of economic prosperity has been designed on socio-political restrictions thrust on the Chinese people. The people of China accepted and even digested this model for as long their economic benefits were explicitly safeguarded. An economic growth of around 10% on a year on year basis also increased Chinese workers' economic aspirations. This resulted in a substantial hike in their wages. However, the cost competence of the Chinese economy of yesteryears rapidly eroded. Almost 20% of the foreign corporations either left China or reduced their operations considerably. Social unrest was on the rise in China because the growth in wages could not indefinitely be sustainable. China's Communist Party gradually started getting into a 'catch 22 position'. Having denied any socio-political freedom to its people, China had to largely depend on its economic formula. It was time to realise the damage done by making the Chinese live an illusion for so long. The people of China on account of its policies did not develop any political maturity or social tolerance these past four decades. The inherent imbalance in the Chinese economic framework got slowly exposed. This military power has started facing the expected economic challenge though China is not quite ready for this predicament.

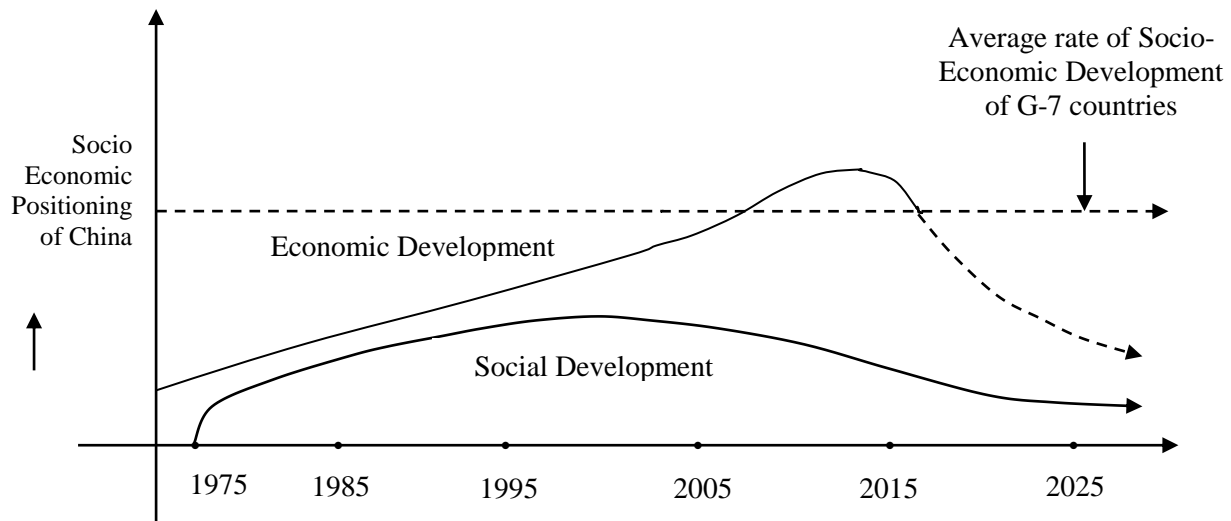
(6) **From business freedom to business exploitation** – Using China as a 'manufacturing base' was a very strategic advantage for many multinational corporations these past three decades. Cheap, yet productive labour, good infrastructure and speedy clearance were some of the sterling advantages China had to offer. With the passage of time and after 2005, these advantages gradually started diminishing. Chinese labour started turning costlier, the environmental pollution was mammoth, the Communist Party started exploiting foreign companies and the bureaucracy turned more and more corrupt and difficult. The very multinational companies that enjoyed a red-carpet treatment earlier got the taste of the other side and got harassed by the Chinese bureaucracy and politicians. The rules of game as of today downright favour the Chinese companies at the cost of foreign corporations. There is no transparency in Chinese legal and banking system left, if there was to begin with. Most major cities in China are suffering from severe pollution levels. Existing foreign companies in China are unable to ensure or announce their length of stay in China. As mentioned earlier, a foreign company in China would essentially need to transact regularly with some

senior member of the Communist Party to know and learn about the possible changes in law and the uncertainties about the governmental approach at dealing with the foreigners. There is growing perception that the business houses are being exploited. The government is not just as keen on sustaining the same rhythm of foreign entrepreneurship presence in the country.

- (7) **From social manipulation to political manipulation** – The first two decades, 1975 to 1995 when China's Communist Party came to power, they got busy with their 'social manipulation' agenda of building a Chinese society which would be contented with some materialistic satisfaction. China was in effect immensely successful in doing so. The party showed a big Chinese dream picture to the people of China and engaged them with single dimensional programmes of economic change. The Party could at that point in time convince its people that economic progress was far more important than social satisfaction, political freedom and intellectual liberty. For as long this economic engagement continued at a certain pace, the government didn't need any political manipulation. However, by about 2010, the people of China got exasperated. This was so because the government could not continue with its economic agenda at the same pace as was designed for its common man at the outset. Members of the Communist Party grew richer and the common folk could not fulfil their materialistic aspirations. After the year 2010, the Communist Party started political manipulation to divert the public debate from 'economics to politics'. In conjunction, the government was obliged to tackle internal as well as external political elements. In the last five years, China has sent a clear message to its people though and to the global community as well, about its political intentions. China has clearly indicated its confrontational capabilities on a global scale should some country dare to thwart its political ambitions. However, if ever China does march forward on the path of such dangerous confrontation, it will be next to impossible for it to withdraw. It is a known observation worldwide that when internal issues become unsolvable in China, it engages itself on external fronts and initiatives. Unfortunately, 90% of the times, these initiatives have been disastrous. Of course, China's political ambition has been visible these last several decades. It has opted to establish its political dominance through its economic agenda. Today it is a unique economy which can dare to face any sanctions levied against it by the western countries. It is this economic might which permits China to stand politically arrogant and sustain itself as an aggressive player in the global arena.

4. A micro view of China's socio-economic deterioration

China's curves of socio-economic growth are now at a conclusive point of confrontation. During last four decades (since 1975) China's transformation occurred in the following fashion:



Note: The curve-movement after 2015 is only a projection

Figure 3

The decade of 2005-2015 was the best for China in terms of economic growth. The end of this period (around 2015) has suggested China's slow deterioration. China developed at a much higher rate during this decade, in comparison with other developed countries. But its curve of social development remained sort of unimpressive. This was so because the social development of the Chinese people had been 'one' dimensional as if it were merely a result of economic progress. The Communist Party never allowed its people to pursue any intellectual, cultural and entrepreneurial growth. The private sector entrepreneurship in China too was strictly directed by the government, thus remaining artificial. The Chinese definition of freedom of people is parallel to that given to an animal. The same way as a bull, an average Chinese is allowed 'to work, earn wages, consume wages and enjoy sex'. Beyond this restricted living, the Chinese person has nothing yonder; he could never think of multi-dimensional growth. Those who rebelled this were either eliminated or imprisoned. (You can see some similarity in Russia, North Korea and countries ruled by the military or autocratic leadership.) The social deterioration of China in near future is quite predictable. With its shrinking economic progress, it seems like the Communist Party would find it almost impossible to control and eliminate a social unrest. The present economic model of China

although employment-oriented, is not sustainable for various reasons. History has repeatedly demonstrated that a country which does not strive for an all-round development of its people is obliged to face internal frustration eventually inviting external solutions.

4.1: China's socio-economic deterioration is evident and dangerous, which you will endorse undeniably going through my observations:

- (1) The rural Chinese are deprived of their share of economic progress; and as for the urban areas there is definite mismanagement. Villagers, especially the farmers are badly exploited. Cities have overgrown, exhibiting signs of stress bulging from side to side.
- (2) The current average wages of Chinese labour are three to four times that in Malaysia or Indonesia. Therefore, many jobs are slipping out of China to those countries and in addition even to Myanmar, Vietnam and Philippines.
- (3) China is not able to sustain the rise in wages and concomitantly create new jobs. This is causing social unrest.
- (4) China's association with most of its neighbours is turning sour. Its expansionist strategies are not only illegal but destructive too.
- (5) China is facing a severe problem of agricultural mismanagement. Irrigation, new technology applications and cost-effective agriculture are becoming remote and more and more difficult. This is mainly because China has given disproportionately higher weightage to manufacturing and service sector.
- (6) Pollution in all of the Chinese cities has reached an alarming high. China is not committed nor has it signed any treaty on international standards of carbon emissions. Pollution has critically impacted urban health and productivity in China. Consequently, its expenditure on healthcare and allied facilities is putting an unbearable burden on its budget.
- (7) China is set to face a very serious problem of water scarcity by 2020. Its agricultural land is not adequately irrigated. By 2020, it is estimated that almost 50% of the productive land shall be under-irrigated. What can be said of the drinking water? It is already costly in the urban areas and water in the rural areas is unclean and unfit thus resulting in health complications in the countryside. I dare say, albeit sadly that India can aspire to match China on this parameter.
- (8) China's exports have declined by almost 40% in the last five years. This is mainly due to the fact that economies of US and Europe are ill performing. It is also a result of artificial protection of China's currency. Other exporting countries like India, Malaysia,

Indonesia and South Korea have all become cost-competitive. The decline in exports has affected China's GDP, employment and cash flows.

- (9) No one can profess to know the real power of China's currency. Just like any oil-producing country from the Gulf, China too protects its currency artificially. The impact of reduced exports, declined growth rate and weak external investments on Chinese currency does not give a clear picture since China is so guarded. China is ambitious about the global status of its currency and certainly aspires to replace the American dollar someday.
- (10) There is a wide estimation that 30% to 40% of the Chinese economy is run by parallel or pseudo banking. This has made computation of 'informal money supply' very difficult. Once again it is a wide guess that China's 50% unaccounted trade including unaccounted exports is supported by this informal money supply.
- (11) The Tibetans and the Muslims are rebelling against the Chinese government and more so against the Han majority. Frustrated farmers, villagers and unemployed youth too are gradually raising their voices. Of course, the fact that the Communist Party suppresses these voices brutally is another matter. There is no reliable data on the number of imprisoned rebels in China. Unfortunately, this number may also include some foreign businessmen who might have lost their legal battles against Chinese corporations who habitually manipulate the Chinese law.
- (12) Nearly 40% of China's foreign investment is in US and Europe. And the West is not doing well for the past ten years. Thus, valuation of and return on these investments have declined considerably.
- (13) The regulator itself in China is corrupt. Whatever the effort of the Chinese president henceforth, corruption in the Communist Party, bureaucracy and Chinese corporations will only increase in the days to come.
- (14) Like any other country, the productivity in government-owned corporations in China is poor. These corporations show a good top line and bottom-line performance, as a result of their artificial monopoly and manipulated figures.
- (15) Like in Russia, Indonesia, North Korea, Italy and Brazil, crony capitalism is on the rise in China. The Chinese government has been promoting this dangerous phenomenon systematically. Well-placed senior members of the Communist Party have vested interests in this overall exercise. Crony capitalism has put a real question on Chinese entrepreneurship.

- (16) There is a huge increase in the Chinese applications for patents and copy rights. Most of them are based on either pirated knowledge or they are fictitious claims. There is never any authentic data about real research conducted in China. Chinese corporations illegally indulge in breach of contracts governing intellectual rights of the foreign corporations. It is very difficult to protect these rights in China because the government itself promotes such unethical practices.
- (17) One of the most dangerous weaknesses of the Chinese economy is the poor quality of social and political maturity of the Chinese people. It is like the members of a protected family who obey their head who alone takes care of them and everything that governs all the members. The members remain totally unexposed to the outside world. But today technology has opened up all avenues for a common Chinese to reach out and grab the world, call his own shots and learn to be independent, in short. So what does that tell us? That China is indeed heading towards a collective rebellion, which will make the Communist Party even more aggressive than it presently is.
- (18) Whatever little transparency in government functioning is there, is rapidly on the decline. The consistency in the Chinese legal system, mechanism of arbitration and fair treatment, if there was some of it to begin with, too is on the decline. Not only the foreigners but even a common Chinese citizen is losing faith in its system of governance.
- (19) To exhibit its large scale and speed of operations, to create employment and accommodate crony capitalism, the Chinese government developed huge infrastructure in most of its provinces which as we can see, is proving to be an unproductive investment without any parallel proportionate rise in business volume.
- (20) The entire globe today is suspicious about China's political and economic intentions, because it has increased cooperation, both civil and military, with irresponsible countries like Pakistan, North Korea and Russia. All these three powers possess atomic weapons which may prove to be lethal for the globe. Besides, China may not be in a position to control the irresponsible elements in North Korea and Pakistan who may misuse these weapons either intentionally or accidentally.
- (21) Most of the Chinese businesses are patronised and overregulated by the government. Therefore, there is no genuine entrepreneurship in China's public and private sectors. Foreign companies too view China as a 'manufacturing hub' and do not venture into any extended entrepreneurial exchanges.

- (22) Like in US, India, Britain, France and Russia, China too suffers from a seriously growing fissure between the rich and the poor. This clearly proves that neither communism nor socialism can truly aspire to establish sustainable equity. In other words, humans have always been greedy, self-centric, opportunistic and offensive. In China too, human behaviour is not much different; even members of the Communist Party have these set of human failings and thus there exists even in the communist set up – a rich communist party member and a common Chinese man who is poor. Not to mention the villagers and especially farmers living in abject helpless conditions.
- (23) The Uyghurs settled in the Xinjiang province are a Turkic ethnic group practicing Islam. They are approximately 10 million forming this ethnic minority comprising mostly of farmers. The Uyghurs and Tibetans together hold about one-third of the Chinese land, most of which is unproductive and not irrigated. These minorities do not have any access to the job market, and are thus compelled to survive and thrive on their traditional activities. The rest of the 90% of Chinese are of the ‘Han’ ethnicity and they sure are very aggressive.
- (24) By the year 2050, 40% of Chinese population is expected to be above 60 years of age. (Currently they constitute a mere 15%.) China will have to arrange for ‘pension provision’ as the country sets out to enter this difficult phase. Like Japan, China too will have the brunt of supporting an unproductive population. With escalating responsibility for the young, China must prepare for growing frustration amid its youth.

5. Why and How Karl Marx failed and shall continue to fail: The Chinese Illustration

Karl Marx the revolutionary social scientist, who developed the theory of international communism, was undoubtedly the most influential socialist thinker of the 19th century. He appealed to the proletariat of the world to unite and fight for their cause, their rights and freedom. Marx stirred up a lot of intelligent minds the world over irrespective of their nationality. The black and white, Christians and Hindus, the old and young, studied and attempted to put to practice the ‘doctrine of equity’ propounded by Marx. His philosophy charmed many intellects in Russia, Poland, China, North Korea, and India so emphatically that millions of citizens belonging to all different countries dismissed their original identity in matters of religion, caste, culture and nationality in order to absorb Marx’s universal

philosophy. Even today communists the world over have no geographical bounds and they reach each other, defend their ideology much beyond any country or region.

Interestingly today China embraces 'capitalism' when it invites foreign corporations from the western world to put up their factories in China. Communists from other parts of the world look up to China's Communist Party as a source of inspiration. After the year 1975, the Chinese leaders adopted a mixed strategy -- capitalism in government affairs and communism to govern its people. This shift, this new stratagem, this ploy, this compound socio-economic model perplexed all communist activists the world over. The Indian communist brethren however, still discuss and deliberate and decide on the lines of the old Chinese doctrines. Despite the fact that today, China has evolved with its own flavour of communism, dismissing the Marxist or Maoist economic models. Eras of Stalin and Lenin are too long gone for the modern-day Russian. In North Korea and Myanmar, the military rulers pretended that they were serving the cause of communism, all while the gullible masses were exploited, threatened and imprisoned. In the name of communism, both -- the fundamental rights and the economic prosperity were denied. The Chinese Communist Party somehow perceptively realised that economic survival was an absolute priority so they cleverly packaged a deal for their citizens wherein their economic stature was ensured but their social, fundamental and intellectual wellbeing was compromised entirely. In other words, the Chinese were formatted to become economically satisfied puppets clamped under communist dictatorship.

The history of Russian communism is bloody and horrific. Of course, there is the old adage that says -- History repeats itself ... and from the current scenario I believe history is now repeating itself in Putin's Russia. Under the banner of 'socially evolved communism', Russia and China have become so-to-say natural friends. Both are expansionist and politically isolated. Both are working on the 'terminal existence of economic advantage'. This is where the similarity between these two countries ends. Putin excessively put his faith in his country's oil exports to shoot up but presently it is quite the contrary with a substantial fall in the oil prices. Putin's dictatorship I should think would continue for as long as the oil-revenue supports Russia and his people do not rebel. As for China, the exploitative communist leadership of China shall continue to rule for as long as it can generate employment and endure the increasing wage payment to its people. Thanks to technology the Chinese youth have ready and complete exposure to global realities which were hitherto denied to them for

as long as the government could control. In that sense, it would probably be immature to predict the medium term and the future of these two big economies.

In a democratic set up such as India's, the states of West Bengal and Kerala were ruled by Communist Parties for almost three decades. Both these states do not have any industries, service sector or profitable agriculture. Kerala survives with the cash flows coming from the Gulf countries where millions of 'Keralites' work. The sons of soil in these two states do not wish to work. They are pretty aggressive about their rights but do not offer even some negligible minimum in productivity. West Bengal looks pathetic with a terrible poverty track record, very old and decaying infrastructure and cultural apathy and sickness. In a nutshell, the people from these two states use 'communism' as their birth right only to say *no* to 'work'. Fortunately, again with global exposure and through e-media, the younger generation of these states has come to realise the significance of productivity, work-ethics and economic prosperity.

North Korea cannot simply be compared with its cousin, South Korea. North Korea under its present dictatorship has no direction of economic progress. It is an irresponsible nation threatening the world with atomic weaponry. Countries like Russia, China and North Korea, more than adequately prove that communism is not an equitable, participative or a sustainable model wherein a country could aspire to prosper over various parameters. Socialism, a diluted version of communism too cannot prove to be effective if not used with the reality of pluralism and dedication to work with appropriate reward mechanisms. A country must comprehend how to differentiate between 'capitalist socialism' and 'socialist capitalism'. Both have their own nuances and limitations. Some may prefer the term 'socialist capitalism' implying capitalism with a social face. And then there is 'Capitalist Socialism' suggesting socialism with 'capitalist' intentions, potentially dangerous and damaging.

When Karl Marx gave his treatise on appropriate recognition of labour, his overall criticism was pointed to 'capitalism' and 'capitalists'. He argued for fair wages and that reward of surplus or extra production be passed on to the workers. Marx observed that capitalists made 'additional profit' because the relationship between labour and capital or say wages and profit was linear. His observation in those days was applicable but not anymore. Marx arrived at his hypothesis only upon study of a small European region of his days. Today the scenario is drastically different especially in vibrant economies like China, India, Brazil or Japan and

Marx's theory of direct linear relationship is no more relevant in this context. His theory was based on the fundamental linear relationship as shown here:

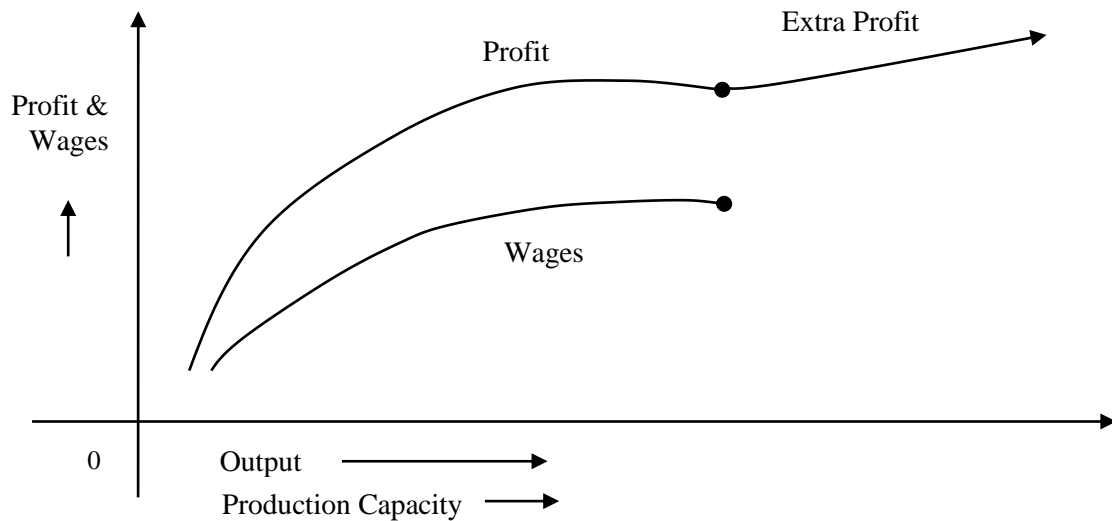


Figure 4

This 21st century, the entire globe has turned into one market, full of various permutations and combinations of capital and labour. The variables of the global market today, are both – interdependent and independent. Hence, the ‘output-wage relationship’ is not simple. Let us have a look at the variables which impact wages today – (1) Flexible technology (2) Migration of labour (3) Flight of capital (4) Ownership sharing with employees (5) Variable or entrepreneurial wages (6) Employee as a depositor or fund provider (7) Loyalty rewards (8) Post-retirement rewards (9) Employee as a lessor or land-lord (10) Employee's own intellectual property rights (11) Organised or unionised labour (12) Exposure through different types of communication / media

5.1: Marx's labour-oriented doctrine cannot function today on account of operational and conceptual reasons as explained here:

- (1) **Entrepreneurial or Variable Wages** – Today in the competitive global environment, most business enterprises expect that their employees perform as if they were entrepreneurs themselves. In fact in that optic, employees do get paid extra for their additional productivity. In many organisations they get a share in the profits of the enterprise.
- (2) **Imperfect Market Conditions** – Marx assumed a base of small but perfect, well-defined market. Today however, the markets are vibrant, uncertain and competitive. In other words, today the markets are imperfect, impacted collectively by multiple variables as mentioned above. The accessibility of skilled labour being inadequate, they command a good rate. Capitalists could lose out if due to this inadequacy their production capabilities are underutilised. They also stand to benefit or lose out on account of availability of some ‘extra

capital', which they could invest in various markets through various instruments and at various rates of return. In most countries, employee remuneration is protected.

- (3) **Varied wages for varied competencies** – It is an obvious, straightforward observation that employees possess different types and degrees of competencies. Unsurprisingly their performances too would differ. Communism though takes it for granted that all human beings are equal and thus should be remunerated equally and that whatever the minimum wage or survival wage declared by the country should be the same and equal for all. However, logic pushes us to conclude that the wages above the 'common minimum line' should be performance-linked. It would be wrong to assume that the brilliant and hardworking employees would want to use their extra bit to upstage the average employee. Though yes there is a possibility that brilliant employees could exploit average employees if allowed. But that is not possible due to : (1) an average employee can have access to average products and services (2) the average employees can unite and use 'collective bargaining tactics' (3) markets being imperfect, an average employee can always find a market which suits him and his purchasing power (4) the ratio between 'brilliant wages' and 'ordinary wages' should be controlled and not allowed to shoot up disproportionately or exploitatively. Therein lies the concept of social face of capitalism or say a principle of detachment and an arrangement where all are happy. (Happiness quotient of Bhutan is a special example to be studied.)
- (4) **Complex Combination of classes and castes** – Marx in his study considered only the two classes of people -- the 'haves' and the 'haves not' or say the labourers and the capitalists. Thus his theory of equality and reasonable wage embraces singularly equality between those two classes. Marx did not take into consideration the impact that several castes and different religions can make on the term 'equality'. As we have discussed earlier, most western countries kept religion away and disconnected with economic activities. Most Islamic countries linked 'religion' with all other matters of socio-economic-politico nature. India suffered and continues to suffer the adverse effects of the archaic caste system which penetrated the Indian ethos and continues to do so in this day and age as well, thus impeding any application of the sacrosanct term 'equality'. Almost 40% of Indian youth is semiskilled or unskilled facing the terrible caste system growth. Marx's hypotheses based on mere two economic classes do not solve the horrible problems posed by the caste system. Let us take a look at the following 'class-caste matrix' of India:

Table 2						
Class Caste	Capitalist	Farmer	Worker	Service Provider	Professional (Specialist)	Manager
Brahmin			•			
Kshatriya			•			
Vaishya						
Shudra					•	•
Traditional or historic translated version of castes: Brahmin – Priest or teacher Kshatriya – King / warrior / protector Vaishya – Trader Shudra – untouchable who does the lowest type of work)						

A Brahmin or Kshatriya worker very often would enjoy a better status in his office or residential locality as compared to a Shudra who is professionally higher up say a specialist or a manager. At times, a competent Shudra on a high post is not appropriately acknowledged for his superlative performance or work simply because he hails from the lowest caste. Likewise, a Brahmin or a Kshatriya teacher in a university could endlessly continue with his poor performance without a finger pointing at him merely because he comes from an upper caste. It is this very caste-system that made India weak and vulnerable making it succumb to the invading Mughals and eventually to the British. The concept of a caste-system does not support a scientific temperament. However, in Indian villages the caste-system is more deep-rooted than in cities. A wealthy Shudra in a village cannot aspire to promote himself and rise in status and be recognised on his financial standing alone. His caste necessarily would impinge that. He would have to leave the village and migrate to a city where the impact of the caste-system would be negligible comparatively.

- (5) **Easy availability of capital** – Last 25 years of globalisation of business and economics made capital an easily available commodity. Hence the importance of capital and the arrogance of the capitalists reduced considerably. What gained importance in its lieu is -- a *business idea* and a *team of 'knowledge workers'*. In other words, 'physical labour' ranked better in the 'value chain' and became 'knowledge labour'. The increase in automation has caused this upward movement of value-

adding labour. Therefore, the reward for the ‘knowledge workers’ is very impressive today, which is easily comparable with the reward available to a capitalist. In many economies, the uncertainty faced by a knowledge worker is much less than the risk faced by a capital provider. Globalization has compelled the shift of capital from the developed economies to the emerging economies. This has further made the supply of capital easy and at cheaper cost. Today knowledge workers are investing directly or indirectly in the shares and bonds of their organisations and thus are enjoying the reward available to a capital provider. Marx’s assumption of ‘monopolist status’ of a capitalist is insignificant now. If capital were so important, the Japanese economy would not have become sick, although the Japanese people possess enough (or excessive) capital to invest.

- (6) **Violent communism** – History of the last two centuries showcases an unpleasant truth – that a communist is rich but the communism he propagates is poor’. Paradoxical as it may sound, I am obliged to put this notion thus – ‘All are equal in a communist state, but some are really more than equal’. If we take China, Russia and North Korea of today, this definition gets amply substantiated. The communist rulers, their bureaucrats, activists and agents amass huge quantum of wealth through corrupt means and continue to keep the people under their regime ‘poor’. By the time people realise how much ‘communism’ has exploited them, the damage done to the economy is irreparable. Unfortunately, in China and in Russia, different categories of communist leaders led their respective economies by assuring the poor gullible masses of a miracle alternate solution that really never was. The communist leaders at the helm would conduct themselves and their affairs as if they were an epitome of virtue – straightforward and simple. But their real avatar was diagonally the opposite where through ruthless corruption they and their kith and kin amassed ridiculous amounts of unaccounted wealth, often across borders, under the cover of public trust or an NGO or in the name of their party’s central fund. Quite a few communist leaders support ‘crony capitalists’ who prosper at the cost of the common man, the general public. Those who would dare to criticise or oppose the views of senior leaders of the communist party would either be isolated or killed. The latest version of communism propagated in India is extremely violent and it goes in the name of ‘Naxalism’. Violent Naxalites do not allow the tribal folk to survive decently by availing of the government schemes. They destroy all and any public infrastructure in order to prevent the government machinery from trying to reach the poor tribal

people. Corrupt and shameless local politicians and bureaucrats loot 50% of the government's aids / funds / schemes and brazenly blame the Naxalites. A considerable geographic territory of India today is seriously affected by the naxal movement.

(7) **Impact of technology** – The last two decades have realised a phenomenal revolution in communication, transportation and some manufacturing processes. It is either the rapid change in technology or the evolution in choices made by the consumer that the amount of capital is proving to be inadequate. With these fast changes today the capital providers are shaky about the sustenance of the Rate of Investment. Technology has also rendered a substantial number of workers 'unwanted'. The entire globe is confused about the trade-off between creation of cheaper goods of mass production by using better technology and 'creation of employment' on the other hand. Countries like China, India, Indonesia, Brazil and Mexico are today facing this dilemma of having to choose between 'automation' and 'employment generation'. It is also a fact that those employees, who could spend on higher technical education for their children, could survive in the 21st century and sustain their family income. In a nutshell, different generations of employees are adapting to the technological changes and are ascertaining or improving their employment worthiness. As for the capitalists they are struggling to carve out their edge in this scenario, unsure of how much to invest and how to retain their market leadership. In quite a few multinational corporations, the employees get better compensation than the returns offered to shareholders, the capital providers.

(8) **Employees turning into businessmen** – In the very populous countries like India, China, and Indonesia the young determined people are self-employed with their small businesses. They either supply to the larger companies or provide contractual services or run small shops. In India itself there are approximately 60 million small entrepreneurs. These entrepreneurs have created equal number of jobs too. Germany, where Marx was inspired to write about his ideas and assumptions, today looks like a better economy in the Euro-zone because 50% of its economy or its GDP is made up of small enterprises. Marx, to prove his theory of 'labour exploitation' restricted his explanation to a linear relationship between 'return on capital' and 'reward for labour'. Marx did not consider the 'plurality' existing in most economies. His excessive dependence on the assumption of one-sided labour exploitation made his 'suggested doctrines' unacceptable in today's global environment. The small

entrepreneurs have repeatedly proven that a fine mix of ‘lesser capital and bigger service-oriented labour’ can be a profitable and sustainable model. We can compare here the model of Wal-Mart and India’s small traders or grocery shops.

5.2: Salary vs. Dividend

Marx’s analyses were based on considerations of state-owned companies, though limited liability companies did exist in Europe especially in Britain, Germany, Italy and France when Marx wrote his thesis. Somehow Marx did not perhaps visualise the ‘evolution of an employee’ in a limited liability setting. Today the corporate employees (including the lowest ranked workers) get reasonably remunerated in most countries. Developing countries like India, South Africa, China, Indonesia and Brazil too pay handsomely to the corporate and unionised employees. The question is of the ‘unorganised worker’ who gets peanuts for his hard work. A corporate employee’s salary is guaranteed with the exception of a small portion which may be tied up to his performance and of course the overall paying capacity of the organisation will determine the salary. A shareholder in other words, a capital provider is not guaranteed a dividend. An appreciation in the market value of his shares is also not a certainty. If we are to compute a shareholder’s risk-weighted rate of return, it would be less than the salary of a single employee of that same company. Marx advocated for a guaranteed and well-paid job for an employee. Many countries including Germany, US, Britain and France today have a good number of ‘public sector enterprises in short government-owned companies, where the average productivity of the employees is pathetic. In India, the average productivity of an employee in the states of Kerala and West Bengal is extremely poor. This is simply because this employee is a member of a union affiliated to the communist party and is, by that virtue shielded and protected. He is a part of the union, so his job is protected whether he performs or not. That same Keralite when he migrates to a gulf country for employment, he works very hard there and saves a good amount of salary to send it to his home-town. In whichever country or region or state a communist party dominates the governance system, the average productivity of the workers is observed to be low. These workers’ average salary too is low, short of any impetus to be rewarded for exceptional work done. This is a simple but obvious result of a vicious cycle as follows:

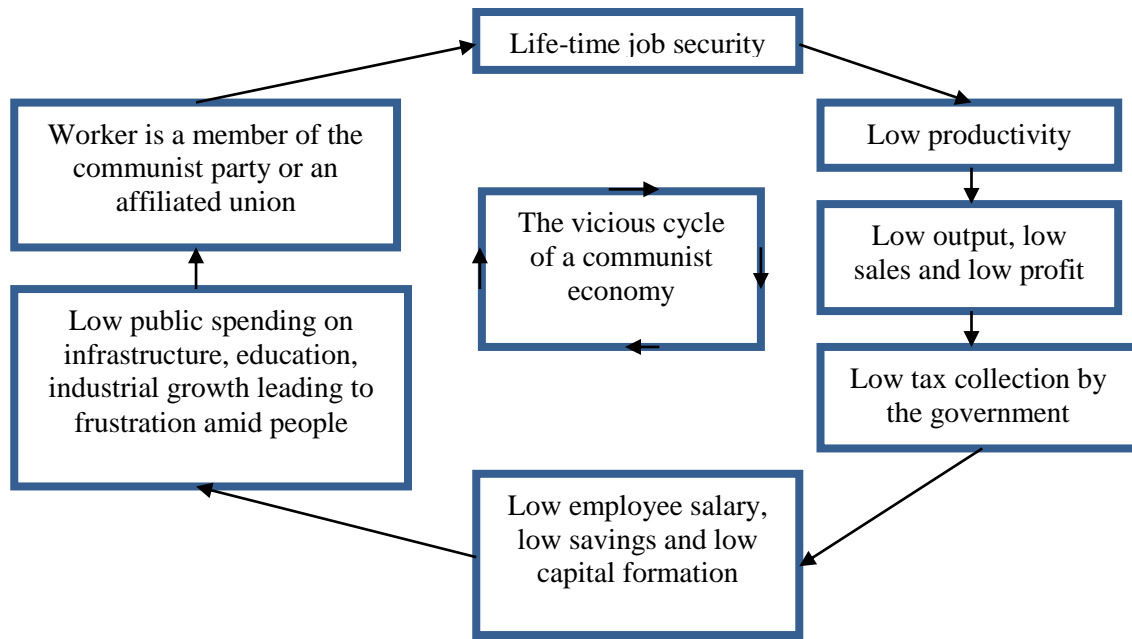


Figure 5

It has been repeatedly observed that the communist leaders to hide their inefficiency and the drawbacks in their governance and philosophy; put inhuman restrictions on people and media. As a last resort, they get into unholy, unproductive wars with their neighbours. This is done to divert attention from internal frustration by participating into random external engagements.

The principle of 'equity' or 'equality' as propagated through 'communism' is very good in principle. Lord Gautam Buddha too emphasised this principle. But at a practical level, this did not happen in the last two centuries for the following reasons –

- (1) Human beings do not always think rationally. The mind by nature is very manipulative and the mind certainly influences the deeds of the individual. The manipulative mind is the precursor to corruption.
- (2) Communism however holy the concept ultimately leads to 'systemic dictatorship' which prohibits creative thinking and constructive criticism.
- (3) Communism does not allow true entrepreneurship culminating in economic prosperity to blossom. Communist leaders prefer 'status quo', poor or bad economic conditions which suits their political game.
- (4) Communism does not allow local cultural activities and festivities which promote public enthusiasm and bonding.

- (5) Communism very often does not take cognisance of new philosophies, markets, technologies and relationships. It retains the old doctrines rigidly which suits its argumentative approach without any useful results.
- (6) By design and definition, communism hates economic prosperity. You can say it suspects and thwarts every genuine attempt at creation of wealth.
- (7) It shows the dream of distributing wealth equally without any suggestion of a path or a mechanism that could lead to creating of wealth.
- (8) Most of the time communism resorts to violence and censorship when it envisages even the mildest of challenge from its people. Communist leaders use violence bluntly to crush any type of criticism defiance or contest.
- (9) Communism is all about rigidity and orthodoxy where there is no room for democracy. Institutions that strengthen democracy, promote new thoughts and innovative approach to enrich human life simply cannot see light in a communist setup.
- (10) Communist leaders distort facts and figures to prove their supremacy such that there can be no legitimate challenge of any sort.

5.3: Other extremes and excesses which created the path for “communism”

If we look at the socio-political and economic history of the globe, we reach a conclusion that ‘communism’ was basically conceived as a reactionary tool, a reactive approach to oppose extreme oppression and excesses of dictatorial tendencies of the prevalent regime. This can be illustrated as follows –

- (1) Communism was accepted in the USSR to oppose the suppression of labourers by land-owners and money-lenders.
- (2) China manipulated the design of communism to suit its unique combination of ‘capitalism for the government and communism for the common public’.
- (3) Exploitation of the poor by the rich trading communities in West Bengal (India) was inhuman and touched the pinnacle. Such that the Bengalis welcomed communism and had it functioning for almost 25 years until they found it impractical and unworkable.
- (4) Orthodox religious rituals, caste-system and the exploitation by the Brahmins and Kshatriyas promoted communism in the state of Kerala (India). Hindus, Muslims and Christians of the region found communism as an acceptable answer, a common design for governance.

- (5) Excessive manipulation and corruption in the corporate world banking industry and stock markets are compelling the common American to think up and envisage some alternate solutions. Quite a few American activists are tempted to realign their thinking on the communist design of economic governance.
- (6) The Red-Indians from USA and the tribal folk of India have been brutally exploited. This exploitation was multi-fold. Even today the Indian tribal folk survive below poverty-line. Living in abject conditions tempted and prompted their ‘sons of soil’ to adopt communism. Today you can see some of them deploying ‘violent communism’ against the government, some business groups and rich communities to vindicate their state of affairs.
- (7) For decades the Sultans and the Sheiks looted national wealth in the Gulf-countries, with the help of Western or Russian military powers. Technology however provided an opportunity to these young Arabs to look at the world and learn about freedom from exploitation. We thus have quite a few youngsters today desirous of using communist or pseudo communist methods of rebelling against their rulers.

5.4: Communism, Commune and Community

Basically, the word ‘communism’ means an overall way of life based on a broader purpose of living together as a holistic community. A community can sustain and prosper together if it grows in all the four dimensions as defined below:

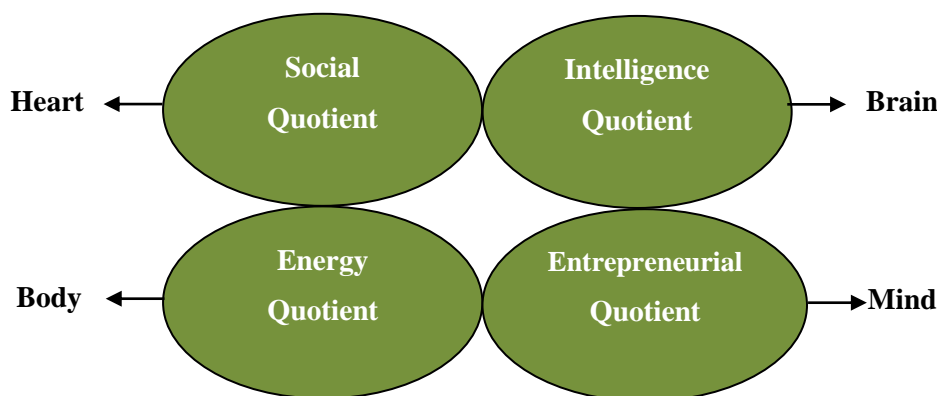


Figure 6

Most of the times, most ‘communist’ thinkers and activists limited their analyses and theories around the ‘social quotient’, and the capitalists confined their thinking to ‘Entrepreneurial Quotient’. Both these groups used ‘Intelligence quotient’ for defining and advocating their doctrines. And they used the ‘Energy Quotient’ for executing and establishing the doctrines. The real challenges and opportunities of life require a well-balanced mix of all four of these

quotients. In other words, the globe truly requires equilibrium of capitalism and communism. We require ‘capitalism with social accountability’ and ‘communism with entrepreneurial responsibility’. Hence, the doctrines of both, communism and capitalism need to be revisited. Marx and Keynes will have to be considered together for inclusive, equitable and sustainable economics. We need to challenge the theories of extreme communism and extreme capitalism. A mature society or nation can be built if such a balanced combination is tried out. We unfortunately come across two types of situations prevalent today. One where the globe is divided between these two doctrines of capitalism and communism or where innocent masses use one ideology or the other, alternatively, to repair the one that has failed.

Both, excesses of communism or capitalism, have ruined many economies during last three centuries. These two ideologies have been hovering over the globe. Both, the developed countries and the emerging countries have used these two philosophies conveniently for ‘politico-economic’ mileage from time to time. A fine combination, that which would bear fruit, is illustrated hereunder and it essentially must be accepted and practiced by all of us, rigorously and systematically:

- Brain: Rationality and Innovation - Intelligence Quotient
- + Body: Prosperity and Activism - Energy Quotient
- + Heart: Sacrifice and Equity - Social Quotient
- + Mind: Creation and Sustenance - Entrepreneurial Quotient

To present the above combination or equilibrium, I have re-written the scope and meaning of these two philosophies as follows:

<i>Table 3</i>	
Communism	Capitalism
<ul style="list-style-type: none"> ➤ Collective progress ➤ Caring for the weak ➤ Equity for all ➤ Humanity is the only religion ➤ Wealth-maximisation is discouraged ➤ Differential wages are discouraged ➤ Government has a definite role in monitoring the economy 	<ul style="list-style-type: none"> ➤ Profit-maximisation is the most important objective ➤ Market should define and decide the shape of the economy ➤ ‘Survival of the fittest’ is the basic doctrine ➤ Competitive Advantage must be sustained ➤ Government’s interference should be minimum ➤ Different rewards for different outputs

Time and again the whole world have experienced that the good parts of both the 'isms' should be combined to have an inclusive, sustainable and equity-based model of socio-economic development.

We can say that China sort of attempted this combination of the two ideologies but the world knows it well enough that China could not really achieve much from it because at the very outset, the intention wasn't quite so. The basic intention of China was not to propagate the goodness of the synergic effect of the two philosophies to benefit their country. China did not and could not achieve this utopic combination for the following reasons:

- (1) The present economic model does not have any long-term social sustainability because it is purely based on 'primary fulfilment of financial needs' of a common Chinese citizen. China is not in a position to support its people should there be a long spell of an economic downturn.
- (2) China does not believe in the basic principles of freedom. Thus, China refuses constructive criticism. China is not concerned enough to chalk out suitable benchmarks or standards which can define an all-round growth of its economy and its people.
- (3) China is consuming disproportionately high amounts of natural resources for its current comforts without casting a thought for the future as near as 2022. Post the turn of the decade China is likely to face serious problems of water, energy, food-grains and minerals.
- (4) China's manufacturing advantage is gradually slipping away and the world is trying to relocate attention on other emerging and developing economies. So China's monopoly is off and unemployment and inadequate use of infrastructure shall soon become serious issues after the year 2022.
- (5) China's international guidelines and doctrines, its political outlook are factors that are damaging China's global image. If it continues with its expansionist programs to encroach on other territories, China will lose some of its global business partners and which will have a direct impact on its import export transactions.
- (6) China does not promote true entrepreneurship. Hence most of the Chinese businesses are not sustainable and competitive, should the government's patronage be withdrawn.
- (7) The present structure of China's economic governance does not really support the need of equal, transparent and inclusive socio-economic growth.

- (8) China does not assist honest and sustainable efforts of innovation which can add to the competence of its economy in general and performance of the Chinese corporations in particular.
- (9) As stated earlier, China's urbanisation programme largely suffers from indiscipline, corruption and absence of justice to the farmers.
- (10) Although the Chinese government wish to call it 'directed social economics', it is actually a case of 'compulsory one-tracked exercise of unsustainable economic progress'.

Thus, the Communist Party of China has been successful in directing the economic growth of the people of China, using its own doctrines and designs. Any one-sided direction ultimately leads to a situation of hegemony, which its sufferers throw away at an opportune time. The people of China, so far have illustrated reasonable patience while waiting for such a collective opportunity. The socio-political frame of China has already developed serious cracks in itself, which should be evident soon. The socio-cultural design of China's economic progress was always inappropriate but has not been fully noticed by the world as the Communist Party of China didn't allow.

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